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August 19, 1999

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
445 Twelfth Street, S.W.  
Washington, D.C. 20554



Personal  
Communications  
Industry  
Association

**Re: Ex Parte Presentation  
WT Docket 98-205 – 1998 Biennial Regulatory Review – Spectrum  
Aggregation Limits**

Dear Ms. Salas:

On August 18, 1999, the Personal Communications Industry Association (PCIA), represented by Mary McDermott and Mary Madigan Jones and Leap Wireless represented by Doug Hutcheson, met with David Furth, David Krech, Pieter van Leeuwen, and Walter Strack of the Wireless Telecommunications Bureau. The points addressed in the meeting are set forth in the attached handouts and are consistent with PCIA's previous filings in this docket.

Pursuant to Section 1.1206 of the Commission's Rules, an original and one copy of this letter are being filed with your office. If you have any questions regarding this filing, please feel free to contact me.

Sincerely,

Mary Madigan Jones  
Vice President, External Affairs

Attachments

cc: David Furth  
David Krech  
Pieter van Leeuwen  
Walter Strack

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## **PCIA SUPPORTS THE SPECTRUM CAP**

### **I. COMPETITION AND MARKET STRUCTURE**

Updated market data still demonstrates that cellular carriers have a majority of the two-way voice market.

1. Less than 40% of the 487 BTAs are now served with any PCS system.
2. Total US wireless subscribers as of 7/1/99 is 83 million. PCS subscribers equal 16 million which is 19% of total suscribership.
3. In the 100 top MSAs that are served by PCS, market share is still below 25%.

### **II. DE-BUNKING THE MYTHS**

**A. Myth:** Support of the cap means that PCIA is saying that competition is not working.

**Fact:** Competition is working

1. FCC's creation of PCS changed the mobile voice services market structure from a cellular duopoly to a multiple mobile market.
2. Introduction of PCS and elimination of the cellular duopoly has caused prices to dramatically drop.
  - In 1998, CTIA reported that a typical mobile telephone user's average bill is \$39.43 per month down from \$56.21 in 1994 – a decrease of 30 %.<sup>1</sup>
  - PCS introduced new pricing packages such as 10 cents a minute by bundling long-distance and roaming charges.
3. Introduction of PCS and elimination of the cellular duopoly has brought innovation and choice to the market place.

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<sup>1</sup> As shown in the FCC's Fourth Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services, Table 1, Appendix B, Released June 24, 1999.

- Innovative service bundling including voice mail, call waiting, dispatch services, automatic recall, speed dialing, caller ID and short messaging services.
- Wireless infrastructure is being modernized and upgraded from analog to digital equipment.
- The wireless market has also seen an increase in new arrangements with adjacent carriers to offer better roaming packages.
- Increased competition has fostered unprecedented innovation in wireless handsets.
- The wireless market is on the verge of introducing a range of data services.

**B. Myth:** The cap prevents consolidation in the marketplace.

**Fact:** The cap allows for significant consolidation, but assures at least 4 licenses in any market ( $180 \text{ MHz}/4 = 45 \text{ MHz}$ ).

1. Within these parameters, current cellular licensees can purchase PCS licenses and PCS licenses can purchase other PCS or cellular licenses.
  - Cellular licenses are 25 MHz each
  - PCS licenses are 30 MHz, 15 MHz, and 10 MHz
  - SMR licenses are attributed at 10 MHz
2. In addition, FCC rules allow for license holders to partition off portions of their market to other carriers and to disaggregate a portion of their spectrum holdings to another carrier within their market, allowing for partial sales up to the cap limit.

**C. Myth:** The cap prevents carriers from acquiring additional spectrum for 3G services.

**Fact:** The current cap does not apply to any future spectrum allocation.

If the Commission makes additional two-way voice spectrum available for 3G operations, the spectrum is not subject to the current cap.

**D. Myth:** The cap is preventing carriers from introducing 3G services.

**Fact:** No carrier has reached the 45 MHz cap in any market.

**E. Myth:** Support of the cap means that PCIA supports regulation.

**Fact:** PCIA supports the FCC's continued role as manager of the spectrum, which is a valuable and limited national resource.

1. Premature elimination of the cap will result in high market concentration.
  - If eliminated, new PCS providers face combined PCS/cellular operators with customer bases and spectrum reserve potential to dominate markets.
  - Elimination of the cap and cellular cross-ownership prohibition could permit 1 or 2 companies to operate all systems in the same market.
  - Changes now would encourage sell-outs not build-outs.
2. Elimination would threaten use of technical improvements and service to compete instead of mergers and consolidations.
3. The PCS industry is still new. PCS competitors are not sufficiently established in the marketplace, in many areas, PCS has yet to attract the first customer.
4. Auctions were premised on a spectrum cap market structure and relied upon to determine value of spectrum and bids.
  - Changing the rules before auction winners reach final construction deadlines or are still trying to acquire financing would destabilize this evolving market.
5. In the midst of current consolidation in the wireline industry, the cap prevents unintended consequences in the wireless market.

### **III. PCIA OPPOSES THE ELIMINATION OF THE SPECTRUM CAP IN RURAL MARKETS**

- A. PCIA believes that the need for the spectrum cap in rural markets is just as great as in urban markets
- B. The carriers supporting the elimination of the cap in rural markets are the incumbent cellular carriers
- C. Competition in rural markets will ensure that advanced services and competitive pricing is introduced in those markets
- D. Rather than eliminating the cap, a waiver standard should be established for rural areas.

#### **IV. LONG TERM PUBLIC POLICY OBJECTIVES**

- A. Sole reliance on antitrust process would be uncertain and costly for small PCS providers beginning to compete with large incumbents.
- B. Cap brings certainty to financial markets and facilitates business planning. Stability is vital to PCS licensees still constructing systems.
- C. The cap encourages the building of independent, facilities-based networks that are vital to true competition.
- D. When system construction is complete and customer bases have created a stable marketplace, the FCC should revisit the cap and modify or eliminate. This decision must be based on the important public policy factors at stake.



## **PCS Market Share - Mid 1999 Update Preliminary Results**

**Personal Communications Industry Association  
8-17-99**

Telecompetition, Inc.  
2694 Bishop Drive, Suite 122  
San Ramon, CA 94583 USA  
Tel: 925-543-5701  
Fax: 925-543-57240



**An estimated 20 new BTAs have launched PCS service since EOY 1998.**

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- Of the 20 new BTAs, only ten of these are located in the top 200 MSAs:

Champaign - Urbana, IL

Corpus Christi, TX

Decatur, IL

Hartford, CT

Jackson, MI

Janesville-Beloit, WI

Lansing - East Lansing, MI

New London-Norwich, CT

Springfield, IL

Springfield, MA

- Less than 40% of the 487 BTAs are now served with any PCS system.

**Net new PCS subscribers equal those of cellular, however  
PCS total market share is still less than 20%.**

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**Net New Subscribers - Total US  
(est. 2Q99)**

|                     |              |
|---------------------|--------------|
| Cellular Subs       | 4.2 M        |
| PCS Subs            | <u>4.2 M</u> |
| Total Wireless Subs | 9.4 M        |

**Total US Wireless Subscribers  
(in service as of 7/1/99)**

|                     |             |       |
|---------------------|-------------|-------|
| Cellular Subs       | 67 M        |       |
| PCS Subs            | <u>16 M</u> | (19%) |
| Total Wireless Subs | 83 M        |       |

Source: Solomon Smith Barney and Telecompetition preliminary analysis, August 1999

**Telecompetition**  
INC.

**Almost half of the top 200 MSAs have no PCS service available.**

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- In the 110 top MSAs that are served by PCS, market share is still below 25%.

**PCS Service in the Top 200 MSAs**

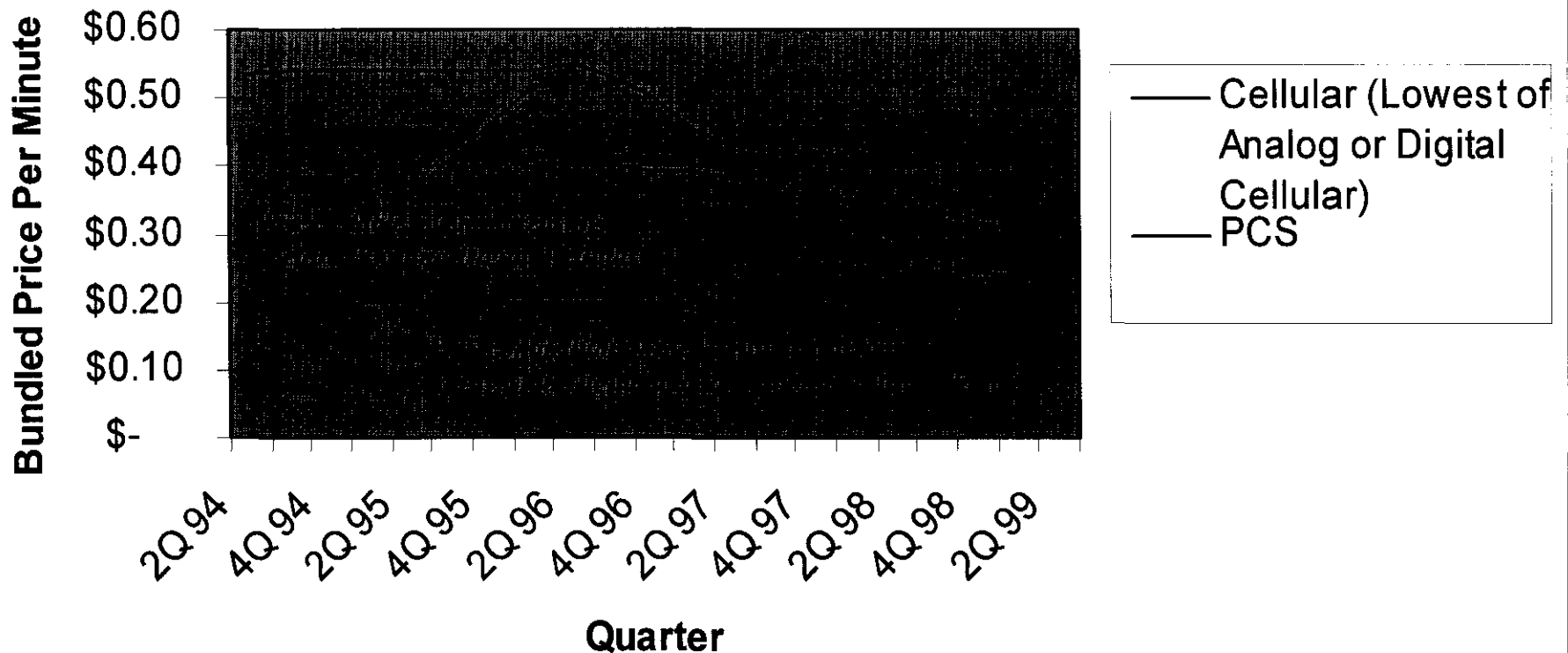
(As of 7/1/99)

|               |             |     |
|---------------|-------------|-----|
| PCS Subs      | 14 M        | 23% |
| SMR Subs      | 3 M         |     |
| Cellular Subs | <u>44 M</u> |     |
| Total Subs    | 61 M        |     |

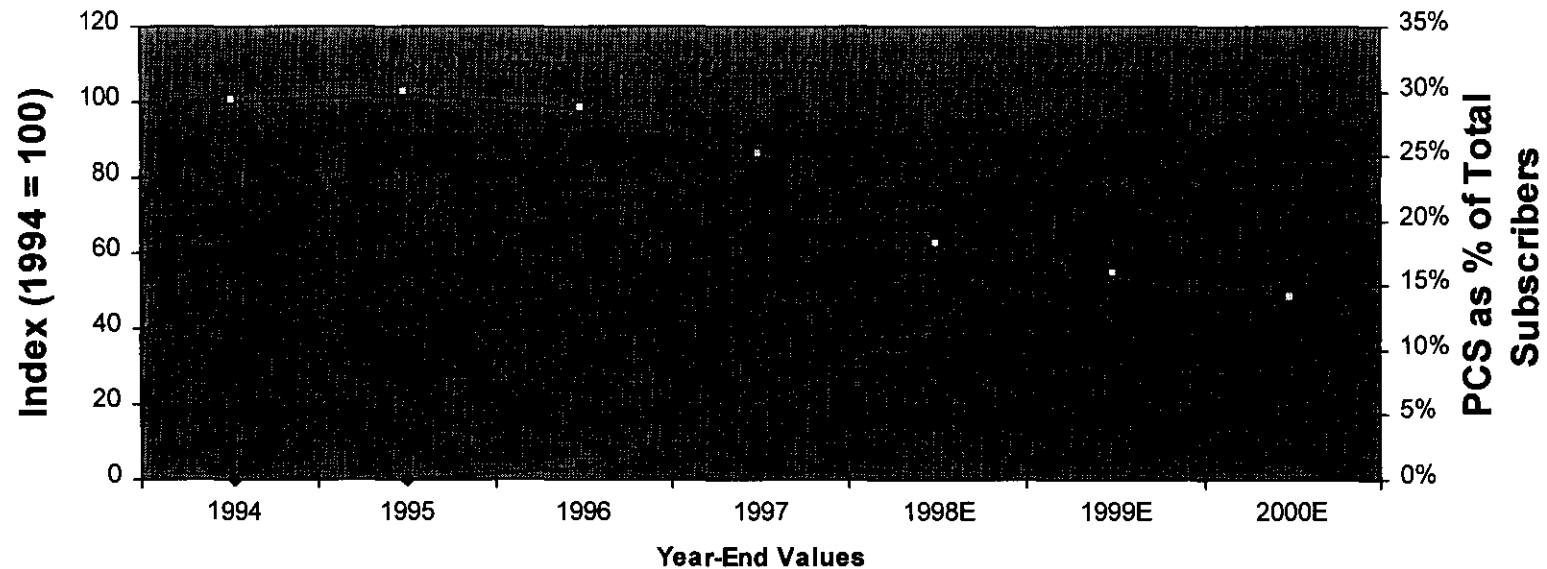
Source: Telecompetition Analysis - preliminary analysis, August 1999

**Telecompetition**  
INC.

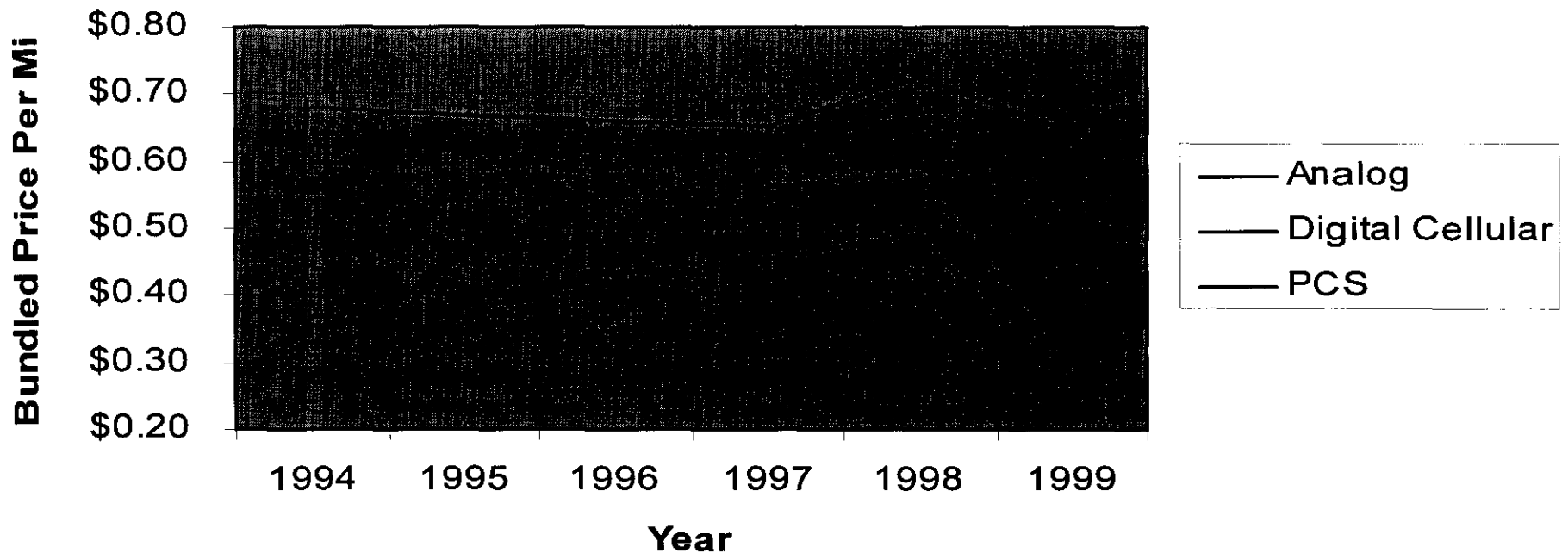
# Introduction of PCS stirs Cellular Pricing



# Average Total Price Reductions Coincide with Increased PCS Penetration

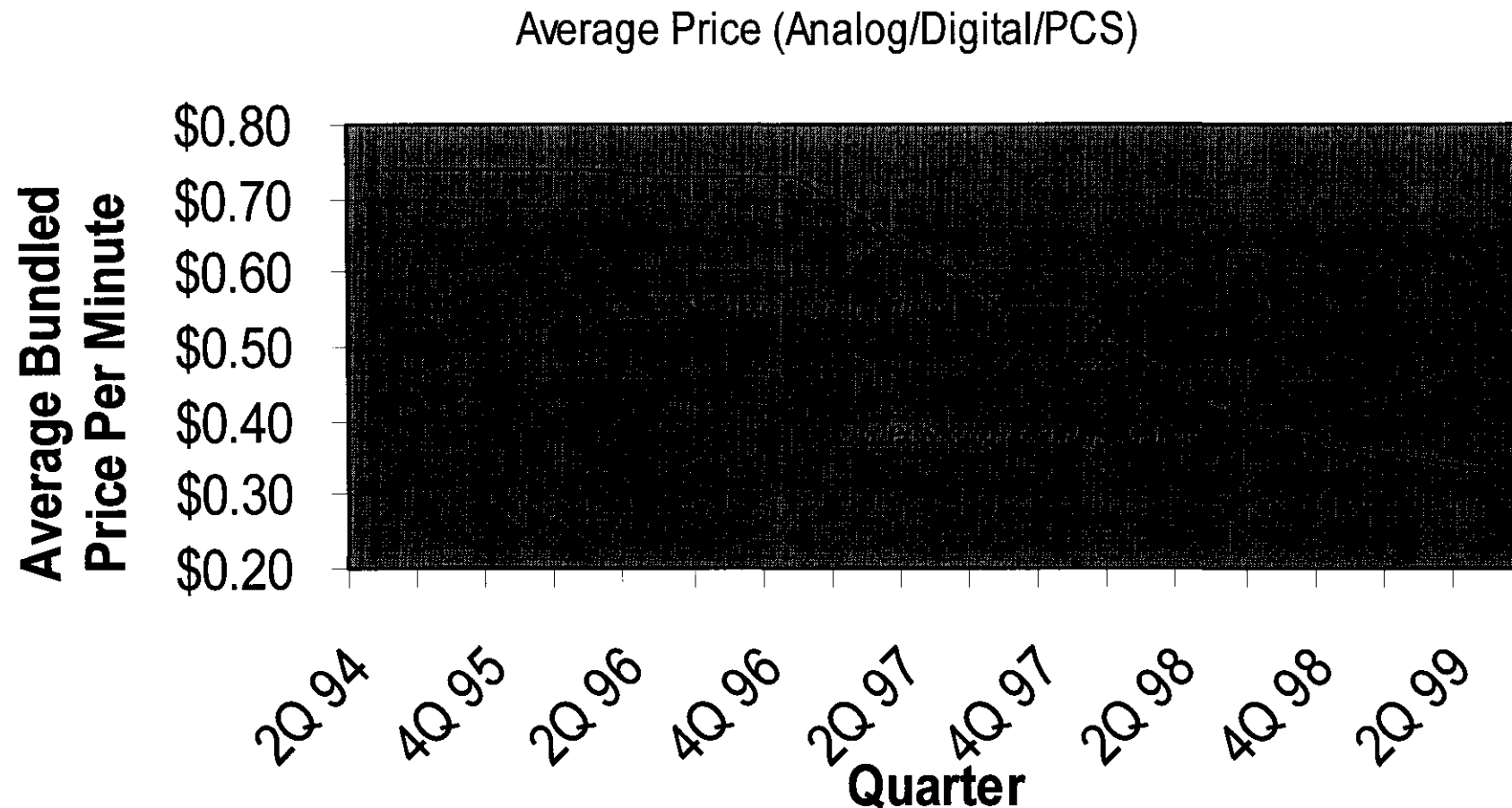


# Price for a Wireless Minute (New York)



*Cellular Carriers have lowered digital prices to compete with PCS;  
Analog Prices remain high to restrain usage,  
but analog net adds are approaching zero*

# Average Prices in Los Angeles Drop with PCS Entry



# PCS Brought to the U.S. Market...

- **Lower Prices**
  - PCS Carriers entered markets at price points 30% below cellular and...
  - Offered big-bucket plans that encouraged increased usage.
- **Increased Competition**
  - The big-bucket plans and claims of superior sound quality forced cellular carriers to adapt digital technology earlier than they might have otherwise.
- **Greater diversity of consumer options**
  - Over 40% of Prepaid Subscribers are PCS
  - PCS carriers (and Nextel) have made 1st incoming minute free and per-second billing standard offers in select markets.
  - The digitization of the wireless market (due in part to PCS introduction) has led to a greater variety of enhanced service offerings and new mobile data applications for both the business and consumer markets.